

Message Text

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C O N F I D E N T I A L SECTION 01 OF 03 OECD PARIS 37656

E.O. 11652: GDS
TAGS: ENRG, OECD
SUBJECT: IEA GOVERNING BOARD - DEC 20

1. SUMMARY: BULK OF DEC 20 GOVERNING BOARD WAS TAKEN UP WITH PRELIMINARY EXCHANGE OF VIEWS ON RESULTS OF DOHA OPEC MEETING. WHILE NO FIRM CONCLUSIONS WERE DRAWN ON IMPLICATIONS OF PRICE DECISION FOR OPEC SOLIDARITY, THERE WAS USEFUL SURVEY OF LIKELY MARKET SITUATION IN FIRST HALF OF NEXT YEAR AND OF PROBLEMS POSED BY TWO-TIER PRICE DECISION FOR PRODUCERS, OIL COMPANIES AND CONSUMERS. STANDING GROUP ON OIL MARKETS (SOM) AND BURROWS GROUP ON PRODUCER/CONSUMER RELATIONS WERE GIVEN MANDATES TO EXAMINE THESE ISSUES DURING THE MONTH OF JANUARY. GB ALSO DISCUSSED POSTURE IEA GOVERNMENTS SHOULD TAKE PUBLICLY IN RESPONSE TO OIL PRICE DECISION, REVEALING CONSENSUS THAT GOVERNMENTS SHOULD AVOID "QUALITATIVE" DESCRIPTION OF SITUATION AND STICK TO FIGURES INDICATING THAT ANY PRICE INCREASE, EVEN FIVE PERCENT, WAS UNJUSTIFIED AND WOULD HAVE SERIOUS IMPACT. GB ALSO APPROVED 1977 BUDGET AND EXTENDED TIME PERIOD FOR
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NOTIFICATION OF CONSENT TO BE BOUND BY IEP TO MARCH 31.
NEXT MEETING WAS SET FOR JAN 31-FEB 1. END SUMMARY

2. PRELIMINARY EXCHANGE ON PRICE AND MARKET SITUATION. ASKED TO LEAD OFF GENERAL DISCUSSION, U.S. REP (BOSWORTH) INDICATED THAT ACCORDING TO OUR VERY

TENTATIVE ANALYSIS DEVELOPMENTS IN OIL MARKET DURING NEXT SEVERAL MONTHS WOULD DEPEND ON A) DEGREE TO WHICH DEMAND WOULD FALL FROM FOURTH QUARTER OF 1975 WHEN IT WAS EXCEPTIONALLY HIGH LARGELY BECAUSE OF ANTICIPATORY BUYING, AND B) EXTENT TO WHICH SAUDI ARABIA AND UAE WOULD--OR COULD--EXPAND PRODUCTION. TENTATIVE ESTIMATE WAS THAT WHILE DEMAND MIGHT FALL BY 4-6 MILLION BPD DURING FIRST QUARTER 1977, SAUDI/UAE CAPACITY TO EXPAND PRODUCTION IN SHORT RUN WAS MORE LIMITED THAN GENERALLY BELIEVED, PROBABLY AMOUNTING TO ONLY AROUND 1-1.3 MILLION BPD IN FIRST QUARTER EVEN IF SAUDIS LIFTED NOT ONLY PRODUCTION CEILING BUT ALSO CONSERVATION RESTRICTIONS. TEST WOULD COME WHEN OTHER ELEVEN, FACED WITH CONTRACTED MARKET, WOULD HAVE TO DECIDE WHETHER TO GO ALONG WITH DECLINE IN REVENUES IN HOPE OF MAINTAINING HIGHER PRICE IN LONG RUN OR TO BEGIN CHEATING.

3. SECRETARIAT (LANTZKE) FOLLOWED WITH SUMMARY OF PAPER (ROOM DOCUMENT NO. 1 - HAND-CARRIED BY BOSWORTH) CONTAINING MARKET ANALYSIS SIMILAR TO THAT OF U.S. BUT WITH SOMEWHAT HIGHER ESTIMATES OF SAUDI/UAE PRODUCTION CAPACITY. HIS CONCLUSION WAS THAT SAUDI ARABIA/UAE COULD MOVE FROM 35 TO ALMOST 50 PERCENT OF OPEC MARKET SHARE BY SECOND HALF OF 1977 BUT THAT THIS WOULD NOT NECESSARILY PREVENT THE ELEVEN FROM HOLDING TO 10 PERCENT INCREASE DESPITE REVENUE LOSSES IN HOPE OF LONGER RUN GAIN. OTHER QUESTIONS OF KEY IMPORTANCE TO LANTZKE WERE DEGREE TO WHICH SAUDIS AND ELEVEN WOULD INSIST ON MAINTAINING TRADITIONAL RELATIONSHIPS WITH OIL COMPANIES WHETHER COMPANIES WOULD SEEK ADVANTAGE OVER EACH OTHER

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OR WOULD WORK TOWARD ARRANGEMENTS AMONG THEMSELVES, AND HOW CONSUMER COUNTRIES WOULD REACT IN TERMS OF ENERGY POLICIES.

4. CANADIAN OIL MARKET EXPERT HOPPER SUPPORTED U.S. REP ON SAUDI/UAE PRODUCTION CAPACITY. HE WENT ON TO POINT OUT THAT IN DETERMINING ABILITY OF ELEVEN TO HOLD TO HIGHER PRICE IT WAS IMPORTANT TO LOOK AT IMPACT ON INDIVIDUAL COUNTRIES. IMPACT WOULD GENERALLY BE GREATER ON PRODUCERS OF HEAVY CRUDE. BECAUSE OF GEOGRAPHICAL RELATIONSHIPS AND/OR QUALITY OF CRUDE, VENEZUELA, NIGERIA, AND INDONESIA SEEMED IN BEST POSITION TO MAINTAIN THEIR SHARE OF PRODUCTION AMONG ELEVEN WHILE IRAN, KUWAIT AND LIBYA COULD EXPECT TO SUFFER MAJOR LOSSES IF COMPANIES SHIFTED TO SAUDI/UAE PRODUCTION. HOPPER'S PERSONAL CONCLUSION WAS THAT THE ELEVEN COULD PROBABLY GO 6-8 MONTHS WITHOUT SERIOUS STRESSES AND THAT OPEC WAS LIKELY WITHIN THAT TIME

PERIOD TO FIND SOME FACE-SAVING MEANS OF COMING BACK
TOGETHER ON PRICES.

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5. SEVERAL OTHER DELS POINTED OUT THAT PRESSURE TO
DEMONSTRATE THAT PRICE ADVANTAGE WAS BEING PASSED ALONG
TO CONSUMERS WOULD MILITATE TO SOME DEGREE AGAINST
COMPANY EFFORTS TO AVERAGE OUT PRICES. NONETHELESS,
SOME COMPANIES--PRINCIPALLY ARAMCO PARTNERS--COULD BE
EXPECTED TO GAIN WINDFALL PROFITS WHILE OTHERS, UNABLE
BECAUSE OF TRADITIONAL RELATIONSHIPS WITH SUPPLIERS TO
TAKE ADVANTAGE OF LOWER SAUDI/UAH PRICE, WOULD SUFFER
LOSSES AND CONSEQUENTIAL DECLINES IN THEIR ABILITY TO
INVEST IN NEW RESOURCES. MOST IMPORTANTLY, PRICE
INCREASE WOULD HAVE DIFFERING EFFECT ON IEA MEMBERS
ACCORDING TO PRINCIPAL SOURCES OF SUPPLY. WHILE NO
OTHER DEL WAS WILLING TO GO AS FAR AS DANE, WHO
SUGGESTED THAT IEA MIGHT SEEK MEANS OF "EQUALIZING"
IMPACT ON MEMBER COUNTRIES, IT WAS AGREED THAT SOM SHOULD
SEEK THROUGH OIL MARKET INFORMATION SYSTEM AND
CONSULTATIONS WITH OIL COMPANIES TO GAIN CLEARER
POSSIBLE UNDERSTANDING OF THESE ELEMENTS.
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6. A NUMBER OF DELS STRESSED IMPORTANCE OF NOT LOSING SIGHT OF WHAT CAN BE DONE ON DEMAND BY CONSUMERS IN WAKE OF UNANTICIPATED PRICE SITUATION, WHICH WAS PROBABLY SHORT-TERM IN NATURE. THEY ARGUED FOR CONTINUED IEA EMPHASIS ON LONG-TERM COOPERATION EFFORT.

7. PUBLIC RESPONSE BY GOVERNMENTS. THERE WAS GENERAL SUPPORT FOR DAVIGNON'S VIEW THAT MEMBER GOVERNMENTS SHOULD REACT PUBLICLY TO PRICE HIKE IN AS CONSISTENT A MANNER AS POSSIBLE AND THAT THEY SHOULD AVOID QUALITATIVE ANALYSIS OF PRICE DECISION, STICKING TO STATISTICAL MEASURES OF IMPACT. LINE SHOULD BE THAT, ALTHOUGH RELATIVE MODERATION OF SAUDI ARABIA AND UAE WELCOMED, ANY PRICE INCREASE WAS UNJUSTIFIED AND WOULD HAVE SERIOUS IMPACT. IN RESPONSE TO U.S. SUGGESTION, IT WAS AGREED THAT GOVERNMENTS SHOULD NOT REFER TO FURTHER 5 PERCENT INCREASE IN JULY AS FOREGONE CONCLUSION BUT INSTEAD NOTE THAT FACT THAT PRICE DECISION WOULD BE REVIEWED IN JULY ADDS FURTHER NOTE OF UNCERTAINTY TO WORLD ECONOMIC PROSPECTS. IN ORDER TO BUTTRESS ARGUMENTS AGAINST PRICE INCREASE, DAVIGNON SUGGESTED THAT BURROWS GROUP A) TRY TO COME UP WITH AGREED FIGURES ON RATE OF INFLATION IN OPEC IMPORTS, USING TO EXTENT POSSIBLE IMF OR OIL PRODUCERS' OWN STATISTICS AND B) EXAMINE RELATIVE IMPACT OF \$800 MILLION INCREASE IN OPEC FUND VIS-A-VIS IMPACT ON LDOS OF PRICE INCREASE (SECRETARIAT INDICATED PRELIMINARY ESTIMATE WAS THAT OPEC FUND EXPANSION AMOUNTED TO LESS THAN HALF OF PRICE INCREASE IMPACT).

8. CONCLUSIONS. GB AGREED TO DAVIGNON'S SUMMATION OF WORK CHARGED TO BURROWS GROUP AS FOLLOWS:

A) AN EFFORT TO COME UP WITH COMMON FIGURES--BASED WHERE POSSIBLE ON IMF AND PRODUCERS' OWN STATISTICS--ON RATE OF INFLATION IN OPEC IMPORTS;

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B) A COMPARISON OF RELATIVE IMPACT OF PRICE INCREASE AND EXPANSION OF OPEC FUND;

C) AN EXAMINATION OF THE DIFFERING EFFECTS OF THE TWO-TIER PRICE SYSTEM ON THE ELEVEN OPEC MEMBERS WHO OPTED FOR 10 PERCENT INCREASE;

D) ANALYSIS OF EFFECTS OF DOHA RESULTS ON ENERGY ASPECT OF CIEC. ALTHOUGH THIS POINT WAS RAISED ONLY

TANGENTIALLY IN DISCUSSION, DAVIGNON NOTED SAUDI LINKAGE OF PRICE MODERATION TO CIEC RESULTS AND VOICED PERSONAL VIEW THAT TIMING OF NEXT OPEC MEETING MIGHT BE EVEN MORE UNPROFITIOUS FOR CIEC THAN LAST, SINCE, IF SAUDIS WERE LOOKING FOR AN EXCUSE TO RAISE PRICES, THEY COULD CLAIM THAT CONSUMERS WERE INSUFFICIENTLY FORTHCOMING AT CIEC MINISTERIAL IN SPRING. IN RESPONSE TO QUESTION BY U.S. REP, WHO STRESSED THAT THERE SHOULD BE NO LINKAGE BETWEEN CIEC AND OIL PRICE DECISIONS, DAVIGNON INDICATED THAT WHAT HE HAD IN MIND WAS CONSIDERATION FROM TACTICAL POINT OF VIEW OF CONVERGENCE BETWEEN CIEC AND OPEC MEETING DATES.

9. SOM WAS CHARGED WITH FULL EXAMINATION OF OIL MARKET SITUATION IN WAKE OF DOHA PRICE DECISION, INCLUDING AN ANALYSIS OF HOW COMPANIES HANDLE THE PRICE STRUCTURE, BASED ON INFORMATION SYSTEM, FORMAL COMPANY CONSULTATIONS IN SOM (SCHEDULED FOR SHELL AND ESSO IN JANUARY) AND BILATERAL DISCUSSIONS BETWEEN GOVERNMENTS AND COMPANIES. DAVIGNON SUGGESTED THAT SOM LOOK AT COUNTRIES WHERE OIL PRICES ARE REGULATED TO SEE WHAT EFFECT SUCH REGULATIONS WOULD HAVE IN NEW SITUATION.

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DAVIGNON STRESSED THAT IEA HAD CERTAIN RESPONSIBILITY TO SEE THAT THERE WOULD BE NO UNDUE GOVERNMENTAL PRESSURE TO GAIN ADVANTAGE OVER OTHER COUNTRIES, A SITUATION WHICH COULD SERIOUSLY DAMAGE INTRA-IEA RELATIONSHIPS.

10. SOM AND BURROWS GROUP WERE ASKED TO REPORT BACK TO GB AT NEXT MEETING, WHICH WAS SCHEDULED FOR JAN 31-FEB 1. BURROWS GROUP WAS SET TO MEET FOR ONE OR TWO DAYS IN WEEK BEGINNING JAN 17. NO PRECISE DATE WAS SET FOR SOM, BUT DAVIGNON URGED THAT IT MEET NO LATER THAN WEEK OF JAN 19.

11. IN CONCLUDING MEETING, DAVIGNON NOTED BOARD'S AGREEMENT THAT DOHA DECISION WOULD NOT PROVIDE "MAGIC" SOLUTION TO OIL MARKET SITUATION, SINCE IT IS FAR FROM EASY FOR SAUDIS TO TURN UP OIL TAP OR FOR COMPANIES TO SHIFT SOURCES OF SUPPLY. WHILE CALLING FOR MAJOR IEA ROLE IN CLARIFYING NEW SITUATION, HE STRESSED PRIMARY CONFIDENTIAL

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IMPORTANCE OF LONG-TERM EFFORT TO REDUCE DEMAND. HE URGED THAT GOVERNMENTS NOT NEGLECT THIS PRIME GOAL OF AGENCY IN PREOCCUPATION WITH CURRENT PRICE AND MARKET SITUATION AND THAT IEA STICK CLOSELY TO TIMETABLE FOR REDUCED DEPENDENCY EXERCISE.

12. QUESTION OF SUCCESSOR TO DAVIGNON AS CHAIRMAN WAS DISCUSSED DURING HEADS OF DEL LUNCH. DAVIGNON OUTLINED HIS VIEW OF WHAT CHAIRMAN SHOULD BE, STRESSING THAT IF GOVERNMENTS WANT IEA TO MAINTAIN POLITICAL MOMENTUM AND FLEXIBILITY, THEY HAD TO BE PREPARED FOR CHAIRMAN TO EXERCISE INITIATIVE. THIS MEANT THAT HE SHOULD HAVE RANK NECESSARY TO DEAL WITH OTHER GOVERNMENTS AT MINISTERIAL LEVEL AND SHOULD COME FROM COUNTRY WHOSE OWN ENERGY SITUATION WAS SUCH THAT HE WOULD BE ABLE TO BRING PRESSURE TO BEAR ON U.S., JAPAN, ETC.

13. NO NAMES WERE DISCUSSED DURING LUNCH, BUT INFORMAL CONVERSATIONS INDICATE LIST HAS EFFECTIVELY BEEN REDUCED TO TOWE OF CANADA AND ERSBOLL OF DENMARK. THERE IS NO MARKED ENTHUSIASM FOR EITHER CANDIDATE. PRINCIPAL OBJECTION RAISED REGARDING TOWE IS QUESTIONABLE NATURE OF CANADA'S COMMITMENT TO CONSUMER COOPERATION (E.G. RESERVE ON CHAPTER V 7 LONG TERM PROGRAM). PROBLEM WITH ERSBOLL IS THAT HE IS UNKNOWN QUANTITY WITHIN IEA ITSELF AND LACKS FAMILIARITY WITH POLITICAL AND ENERGY DYNAMICS OF CONSUMER COOPERATION.

14. DAVIGNON IS TENTATIVELY FLOATING A POSSIBLE

COMPROMISE WHICH WOULD PUT TOWE IN THE CHAIR ACCOMPANIED
BY SOME POSITIVE SIGNAL FROM CANADA ON CHAPTER V.
ERSBOLL WOULD BE "WORKING" VICE-CHAIRMAN WITH UNDER-
STANDING HE WOULD SUCCEED TOWE IN 1978. THIS MAY HAVE
MERIT AS WAY OUT OF PRESENT IMPASSE, GIVEN ABSENCE OF
ANY NEW COMPROMISE CANDIDATE. IT WAS AGREED THAT
COUNTRIES WILL CONTINUE INFORMAL CONTACTS OVER NEXT
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SEVERAL WEEKS AND THAT NEW CHAIRMAN WILL BE CHOSEN AS
FIRST ITEM OF BUSINESS ON JANUARY 31.
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